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INTRODUCTION

The Office of Internal Audit performed an audit of Cheboygan/Mackinac County FIA for the period October 1, 1999 through June 14, 2000. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Cheboygan/Mackinac County FIA had 48 full time equated positions (FTE's) at the time of our review. Cheboygan/Mackinac County FIA provided assistance to an average 2,066 recipients per month during FY 1999, with total assistance payments of \$2,171,711 during that year.

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Cheboygan/Mackinac County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts	Cash Disbursements
General Ledger	Food Stamps
Modified Accrual Basis Balance Sheet	State Emergency Relief
Safe and Controlled Documents	Client Processing
Medical Transportation	IRS Information Security
Employment Support Services	Telephone Usage
CIS/ASSIST	Child Well Being
Payroll and Timekeeping	Procurement Card

EXECUTIVE SUMMARY

Based on our audit, we concluded that the Cheboygan/Mackinac County FIA internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found a few instances of noncompliance with FIA policies and procedures and weaknesses in internal controls, which are detailed below.

LOCAL OFFICE RESPONSE

The management of the Cheboygan/Mackinac County FIA Office has reviewed all findings and recommendations in this report. They indicated in a memorandum dated June 28, 2000, that they were in general agreement with the report except for two findings regarding Medical Transportation. The local office implemented corrective action for four items while the auditor was on site.

FINDINGS AND RECOMMENDATIONS

CHEBOYGAN COUNTY

Cash Receipts

FIA-4729 not Used

1. Cheboygan County FIA did not use the Daily Mail Record of Cash Receipts for Deposit (FIA-4729) for all negotiables received for deposit. Rather, the local office was recording all negotiables received in the mail on the Record and Disposition of Checks/Warrants (FIA-61). Accounting Manual Item 431 requires that the FIA-4729 be used to record negotiables received in the mail for deposit. Use of the two separate lists helps to ensure that the proper information is recorded for each type of negotiable, and makes reconciliation of deposits and negotiables on hand easier.

WE RECOMMEND that Cheboygan County FIA record negotiables received for deposit on the FIA-4729.

Cash Disbursements

No findings in this area.

General Ledger

Reconciliation of Cash with County Treasurer

2. Cheboygan County FIA did not reconcile its Asset Account 001 (Cash with County Treasurer) to the County Treasurer's cash account each month, as required by Accounting Manual Item 402. The account was last reconciled as of September 30, 1999. Prompt reconciliation of this account balance would detect and discrepancies, and facilitate needed corrections.

WE RECOMMEND that Cheboygan County FIA reconcile its Cash with County Treasurer Account to the County Treasurer's records each month.

Approval of Journal Vouchers

3. Cheboygan County FIA journal vouchers were not approved by the preparer's supervisor or other person designated by the director, as required by Accounting Manual Item 450. Requiring approval of journal vouchers helps reduce the risk of unauthorized transactions being processed.

WE RECOMMEND that Cheboygan County FIA require all journal vouchers to be approved by the preparer's supervisor or another person designated by the director.

Modified Accrual Basis Balance Sheet

Change in County Equity Statement

4. Cheboygan County FIA had not prepared the monthly Change in County Equity Statement since September, 1999. The local office was having difficulty preparing this statement because of the implementation of the Local Accounting System Replacement (LASR) and because they had combined fiscal offices with Mackinac County FIA. Accounting Manual Item 402.3 requires that the Change in County Equity Statement be prepared each month to ensure that the county equity is properly reported on the balance sheet.

WE RECOMMEND that Cheboygan County FIA prepare the Change in County Equity Statement each month.

Outstanding Accounts Receivable Files

5. Cheboygan County FIA did not maintain an Outstanding Accounts Receivable file for each type of billing/report/authorization used to obtain reimbursement from the State, as required by Accounting Manual Item 402.3. Maintaining these files helps the local office keep accurate records of amounts due from the State, and helps to ensure accurate reporting of accounts receivable for reporting on the Modified Accrual Basis Balance Sheet.

WE RECOMMEND that Cheboygan County FIA maintain an Outstanding Accounts Receivable file for each type of billing/report/authorization used to obtain reimbursement from the State.

Safe and Controlled Documents

Controlled Document Log

6. Cheboygan County did not properly control blank documents. We noted that the local office was not using the Controlled Document Log (FIA-4070) for Purchase Order/Invoices (FIA-2083), Official Cashier Receipts (FIA-3681), and Blank Checks (FIA-1802), as required by Accounting Manual Item 403. Use of the Controlled Document Log and preparation of the Monthly Controlled Document Inventory and Reconciliation help to ensure that loss, theft, or misuse of controlled documents would be detected on a timely basis.

WE RECOMMEND that Cheboygan County FIA use the Controlled Document Log and prepare the Monthly Controlled Document Inventory and Reconciliation for all controlled documents.

Food Stamps

Recounting Food Stamp Envelopes

7. Cheboygan County FIA did not recount the envelopes in the food stamp mail issuance after they were run through the postage machine, as required by Food Stamp Issuance Instructions Manual Item 510. Recounting the envelopes helps to ensure that none were stolen or misplaced during the mail issuance process.

WE RECOMMEND that Cheboygan County FIA recount food stamp mail issuance envelopes after they are run through the postage machine.

Medical Transportation

Missing Medical Needs Authorizations (FIA-54A)

8. Cheboygan County FIA did not have completed Medical Needs Authorizations (FIA-54A) on file for 2 of the 6 cases we tested. Program Administrative Manual Item 825 and Accounting Manual Item 416 require that properly completed FIA-54A's be on file to document the need for medical transportation.

WE RECOMMEND that Cheboygan County FIA ensure that properly completed FIA-54A's are on file in all cases where medical transportation is authorized.

State Emergency Relief (SER)

Supporting Documentation for Payments

9. Cheboygan County FIA did not have supporting documentation attached to the FIA-849 on file in the Accounting Office for 2 of the 27 payments we reviewed. In addition, there were 13 payments made where the Accounting Office had a copy of the bill attached to the FIA-849, rather than the original. Accounting Manual Item 404 requires that original bills be attached to the FIA-849 as documentation for payments made. Attaching original invoices to the Accounting Office copy of the FIA-849 helps ensure that all FIA-849 payments are accurate and appropriate.

WE RECOMMEND that Cheboygan County FIA attach the original invoice or other supporting documentation to the Accounting Office copy of the FIA-849.

ES-440 Report Reconciliation

10. Cheboygan County FIA did not always reconcile the FIA-849 Issuance Report (ES-440) properly, as required by Accounting Manual Item 404. We found one case

where a home repair payment was made twice. The duplicate payment was not caught in the ES-440 reconciliation process.

WE RECOMMEND that Cheboygan County FIA recoup the overpayment made as a result of the duplicate payment.

WE ALSO RECOMMEND that Cheboygan County FIA reconcile the ES-440 Report to the supporting documentation each month.

Employment Support Services

No findings in this area.

Client Processing

No findings in this area.

CIS/ASSIST

Inaccurate CIS Status Codes

11. Ten of the 33 employees who access the Client Information System at Cheboygan County FIA had status codes indicated on their CIS Security Agreements (FIA-3974) that differed from their status as indicated on the PF-011 Report. Accurate, up-to-date Security Agreements are necessary to document that the employees are aware of the responsibilities and confidentiality requirements associated with their level of access on CIS

WE RECOMMEND that Cheboygan County FIA ensure that accurate, up-to-date Security Agreements are on file for all employees who access CIS.

IRS Information Security

No findings in this area.

Payroll and Timekeeping

No findings in this area.

Procurement Card

No findings in this area.

Telephone Usage

No findings in this area.

Child Well Being

No findings in this area.

MACKINAC COUNTY

Cheboygan and Mackinac County FIA have a combined fiscal office which is located at Cheboygan County FIA. Therefore, some of the items included in our audit scope are not applicable at Mackinac County FIA. Only the items that are applicable are included below.

Cash Receipts

No findings in this area.

Medical Transportation

Missing Medical Needs Authorizations (FIA-54A)

12. Mackinac County FIA did not have completed Medical Needs Authorizations (FIA-54A) on file for all 4 of the cases we tested. Program Administrative Manual Item 825 and Accounting Manual Item 416 require that properly completed FIA-54A's be on file to document the need for medical transportation.

WE RECOMMEND that Mackinac County FIA ensure that properly completed FIA-54A's are on file in all cases where medical transportation is authorized.

State Emergency Relief

Supporting Documentation for Payments

13. Mackinac County FIA did not have supporting documentation attached to the FIA-849 on file in the Accounting Office for one of the 16 payments we reviewed. In addition, there were 13 payments made where the Accounting Office had a copy of the bill attached to the FIA-849, rather than the original. Accounting Manual Item 404 requires that original bills be attached to the FIA-849 as documentation for payments made. Attaching original invoices to the Accounting Office copy of the FIA-849 helps ensure that all FIA-849 payments are accurate and appropriate.

WE RECOMMEND that Mackinac County FIA attach the original invoice or other supporting documentation to the Accounting Office copy of the FIA-849.

Payment Authorization Files

14. Mackinac County FIA did not maintain the files of Supplemental Payment Authorizations (FIA-13) and Authorization Invoices (FIA-849) in either alphabetical or case number order, as required by Accounting Manual Item 404. Rather, the local

office was maintaining the FIA-13's in date order, and the FIA-849's attached to the monthly reconciliation report. Maintaining the FIA-13's and FIA-849's in either alphabetical or case number order provides an audit trail to easily detect how many supplements or emergency payments a client has received, and makes the FIA-13's and FIA-849's easy to retrieve if needed at a later date.

WE RECOMMEND that Mackinac County FIA maintain FIA-13's and FIA-849's in either alphabetical or case number order.

Employment Support Services

Vehicle Repairs

15. Mackinac County FIA did not verify vehicle ownership prior to authorizing a repair for the vehicle for one of the four payments we reviewed. In addition, they made the payment for that repair without having an invoice on file for the repair. The repair was paid for through the Employment Support Services (ESS) Program. Program Eligibility Manual (PEM) Item 232 requires that clients own the vehicles they are having repaired, and that an invoice be on file to support the payment.

WE RECOMMEND that Mackinac County FIA verify vehicle ownership and obtain invoices for repairs performed before paying for vehicle repairs.

Client Processing

No findings in this area.

CIS/ASSIST

Bookkeeper's CIS Security Code

16. The Mackinac County FIA bookkeeper had FLM status on the Client Information System (CIS), did not have a CIS Security Agreement (FIA-3974) on file, and performed the reconciliation of the Supplemental Payments on the Transaction Control Listing (MA-010) to the supporting documentation. FLM status would allow the bookkeeper to make changes to client cases, authorize supplemental payments, and process payments to those same clients without an independent review of the transaction.

WE RECOMMEND that Mackinac County FIA change the bookkeeper to inquiry only status on CIS, and have her complete a CIS Security Agreement.

ASSIST Security Agreements

17. One of the 14 employees who accessed ASSIST at Mackinac County FIA did not have an ASSIST Security Agreement (FIA-3721) on file, as required by L-Letter 97-156. A completed Security Agreement is necessary to document that the employee understands the responsibilities and confidentiality requirements associated with their ASSIST access.

WE RECOMMEND that Mackinac County FIA have the one employee complete an ASSIST Security Agreement.

IRS Information Security

No findings in this area.

Payroll and Timekeeping

No findings in this area.

Telephone Usage

No findings in this area.

Child Well Being

No findings in this area.